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Nebraska Economic Projections for 1989

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Summary of Nebraska Projections

*Gross State Product in real terms will grow 2.5 percent to $25.3 billion.
*The number of nonfarm wage and salary jobs will increase to an annual average of 677,800.
*The number of employed persons will grow to an annual average of 785,250.
*The unemployment rate will increase to 4.1 percent.
*Total personal income will rise 6.8 percent (in current dollars) to $26.0 billion.
*Net taxable retail sales will grow 5.3 percent and reach $11.750 billion.

Overview

The Nebraska economy enjoyed a prosperous year in 1988, posting gains in gross product, income, employment, and retail sales. Prosperity was not equally distributed among industries, but on balance the economy performed well. The drought hit certain areas of the state hard, but severe damage was not widespread enough to jeopardize farm income levels. A strong national economy provided much of the stimulus that moved Nebraska ahead. Tax incentive legislation also provided positive influences upon growth in the state economy.

As 1989 gets underway, the intriguing question is whether the state economy will be able to match the performance of 1988. Part of the answer lies in the prospects for the national economy. Analysts of the national economy are offering a mixed bag of projections. Most view the first quarter of 1989 as a period of strong growth, but foresee lower growth rates for the later quarters of the year. The annual growth rate for 1989 should be respectable. Recession has returned to the vocabularies of many national observers, but onset of a recession apparently has been pushed into early 1990. This article is concerned with the specifics of the state economy in 1989. A focused review of the national scene is contained in the Review and Outlook section following this article.

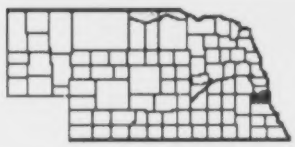
The projections of 1989 activity in Nebraska presented below are products of the Nebraska econometric model, a projections and impact analysis system constructed by the author. Four broad categories of economic indicators will be addressed: Gross State Product, jobs and employment, personal income, and net taxable retail sales. On balance, all of the economic indicators point to another year of growth for the Nebraska economy, although the growth rates of several of the indicators will fall a bit short of their 1988 rates.

Gross State Product

Gross State Product (GSP) is the most comprehensive measure of state economic activity available and is defined as the gross market value of the goods and services attributable to labor and property located in a state. In essence, GSP is the state's version of Gross National Product, the broad national economic barometer. Prior to 1988, GSP was not an official information product of the Bureau of Economic Analysis (BEA), collector and purveyor of much regional economic data. In the spring of 1988, BEA released the results of a project that calculated the GSP of every state for each year during the 1963-1986 span. Prior to the release, economists had been making independent estimates of GSP using several methods. These efforts will continue,

County of the Month

Cass



Size of county: 564 square miles, ranks 67th in the state
Population: 22,200 (estimated) in 1987, a change of +9.2 percent from 1980
Median age: 30.9 years in Cass County, 29.7 years in Nebraska in 1980
Per capita personal income: $12,390 in 1986, ranks 65th in the state
Unemployment rate: 6.8 percent in Cass County, 4.9 percent in Nebraska for 1987
Net taxable retail sales ($000): $61,250 in 1987, a change of +1.4 percent from 1986; $49,998 during January-September 1988, a change of +7.7 percent from the same period one year ago
Nonfarm employment (1987):

	State	Cass County
Wage & salary workers	659,223	3,215
	(percent of total)	
Manufacturing	13.3%	10.2%
Construction and Mining	3.9	6.8
TCU	6.5	6.1
Retail Trade	18.7	20.4
Wholesale Trade	7.1	6.8
FIRE	7.3	4.5
Services	22.7	14.8
Government	20.5	30.4
Total	100.0%	100.0%

Agriculture:

Number of farms: 915 in 1982, 977 in 1978
Average farm size: 346 acres in 1982
Market value of farm products sold: $74.1 million in 1982 ($80,948 average per farm)

Sources:

Bureau of the Census: *Area Measurement Reports*, 1970; *Census of Agriculture*, 1982; *Census of Population*, 1980; *County Population Estimates*, July 1, 1987
Bureau of Economic Analysis: *Survey of Current Business*, April 1988
Nebraska Department of Labor: *Labor Market Summary Report*, 1987
Nebraska Department of Revenue: *Net Taxable Sales*
ERRATA: December 1988 issue, Pierce County net taxable retail sales ($000) during January-August 1988 were $18,360, not $19,938

Merlin W. Erickson

Projections (continued)

but now will focus on reducing the significant time lag in BEA's release of the official figures.

GSP figures are available by industry, thereby allowing analyses and projections of industry output levels within Nebraska. The common frame of reference for GSP figures is real (or constant) dollars—for this purpose, the base year of 1982 is used. Table 1 contains the GSP figures from the last several years for Nebraska industries. The first item from the table to focus upon is the total GSP for the state. In 1986, Nebraska GSP reached $23.7 billion, having grown 1.6 percent from 1985. In contrast, Gross National Product in the U.S. grew 2.8 percent over the same period. In 1987, GSP grew an estimated 1.7 percent from 1986, but once again the annual growth rate of Gross National Product in this period was higher, 3.4 percent. Finally, the growth gap continued 1987-1988—estimated GSP growth reached 2.6 percent, but was surpassed by Gross National Product growth of 3.9 percent. The trend of Nebraska economic growth rates lagging those of the U.S. during the recent years is firmly established. Perhaps most interesting (and disconcerting) is that these growth lags occurred in the midst of a sustained agricultural sector recovery. Had the agriculture sector not been on the upward move, the growth gap would have been even more pronounced.

Total GSP for Nebraska in 1989 is projected to be $25.3 billion, representing a gain of 2.5 percent over the level of real activity in 1988. This growth rate is just slightly below the 2.6 percent rate estimated for the 1987-1988 span. When all the final figures are in, 1988 will be seen to have been a very good year for the Nebraska economy. Thus, a projected growth rate close to the one posted in 1988 indicates continued strength and vigor in the economy. Furthermore, the 2.5 percent growth rate for 1989 looks good when compared with the average annual growth rate of 2.0 percent that prevailed during the recent span of 1985-1988. The growth rate for 1989 also exceeds the compounded annual growth rate of 1.7 percent over the longer historical period of 1979-1988.

Although the growth path of the Nebraska economy looks strong for the coming year, it again will fall short of the growth rate of the U.S. economy. Real Gross National Product is expected to advance 2.9 percent in 1989. Without major changes, the pattern of Nebraska lagging the pace of the U.S. appears destined to continue.

The figures in Table 1 show that manufacturing is expected to do particularly well in 1989, led by a 5.3 percent gain in the gross product of the nondurables component. Durables manufacturing is close behind with an anticipated 4.8 percent gain in gross product. Thus, a continuation of the manufacturing surge in the Nebraska economy seems to be in place for 1989. This spurt began in durables manufacturing during 1987, as gross product advanced 2.5 percent over the 1986 level. Growth then accelerated to a 5.6 percent pace in 1988. Nondurables manufacturing growth was flat in 1987 and waited until 1988 to get underway—generating a 5.4 percent growth over 1987 levels. Nebraska manufacturing is tied closely to the national economy. The strong and sustained national growth has accelerated manufacturing activity in the state.

The second tier of industries projected to have higher than average growth rates of gross product in 1989 are wholesale trade; services; federal government; finance, insurance, and real estate (FIRE); and transportation, communication, and utilities (TCU). These industries will have growth rates around 3.0 percent, with TCU leading the group with a rate of 3.7 percent. With the exception of services, the 1989 growth rate of each industry in the group will exceed the average annual rate over the 1985-1988 period. Services was the second fastest growing of all industries during the 1985-1988 period, and its anticipated growth of 3.2 percent in 1989 is certainly not meager.

Mining, construction, retail trade, and state and local government constitute a third tier of industries characterized by growth rates in gross product that will fall below 2.0 percent for 1989. Retail trade has demonstrated below average growth in

Table 1
Gross State Product by Industry in Nebraska
(millions of 1982 dollars)

Industry	1985	1986	1987*	1988*	1989	% Change 1988-1989	Average Annual % Change 1985-1988
Farm	3,410	3,538	3,657	3,625	3,575	-1.4%	2.1%
Agricultural Services	120	125	122	118	116	-1.7	-0.5
Mining	87	79	83	85	86	1.2	-0.6
Construction	846	814	806	799	801	0.3	-1.9
Durables Manufacturing	1,968	2,040	2,092	2,210	2,316	4.8	3.9
Nondurables Manufacturing	1,595	1,593	1,606	1,692	1,781	5.3	2.0
Transportation, Communication, Utilities	2,582	2,576	2,593	2,702	2,802	3.7	1.5
Wholesale Trade	1,778	1,795	1,832	1,886	1,941	2.9	2.0
Retail Trade	2,041	2,098	2,100	2,130	2,162	1.5	1.4
Finance, Insurance, Real Estate	3,554	3,633	3,646	3,760	3,879	3.2	1.9
Services	2,818	2,899	3,039	3,126	3,226	3.2	3.5
Federal Government	484	501	511	525	542	3.2	2.7
State and Local Government	2,018	1,981	1,993	2,044	2,083	1.9	0.4
Nebraska Total GSP**	23,300	23,673	24,080	24,705	25,311	2.5	2.0
U.S. Total Gross National Product (billions of 1982 dollars)	3,619	3,722	3,847	3,998	4,114	2.9	3.4

*Figures for 1987 and 1988 are estimates made in advance of official releases.
** Totals may not add due to rounding.
Sources: Bureau of Economic Analysis: April 1988 release of Gross State Product. Projections from the Nebraska econometric model.

gross product during recent years, and the trend will continue into 1989. Decline in the real wage rate in retail trade over the past several years has been a major factor contributing to below average growth. Mining continues to be an erratic industry, with oil price movements being the major factor determining gains or losses in gross product. Construction also has behaved erratically over the past several years, but the discernable trend has been a downward one. The projection for 1989 calls for at least a temporary end to the slide in the construction sector, but a strong recovery is not likely in the immediate future.

The final group of industries contains the two that will experience declines in gross product during 1989: farm and agricultural services. Both industries will be the victims of steep rises in their price deflators. Although the gross products of these industries in current dollar terms will grow during 1988, the respective price deflators will rise more quickly and cancel any gains in real terms.

Employment

Employment figures for the state are collected routinely and reported on two bases: place of work and place of residence. Figures on the place of work basis are counts of the number of nonfarm wage and salary jobs in Nebraska. It is this definition of the word *jobs* that is used in what follows. The number of jobs is not a count of Nebraskans holding jobs, as out-of-state residents may hold jobs in Nebraska. In addition, persons can hold more than one job, and they can hold jobs outside the state. One can not equate the number of jobs with the number of Nebraskans having employment. In contrast, employment figures on the place of residence basis are counts of Nebraskans who are participating in the labor force, are employed, or are unemployed. To limit confusion, use of the term *employment* is confined to the place of residence basis, i.e., employment or the number of employed refer to the number of Nebraskans holding jobs.

Table 2 contains the numbers of jobs in the respective nonfarm industries of Nebraska. Also given are figures on the number of Nebraskans in the labor force, the number employed, the number unemployed, and the unemployment rate. Although the official figures for 1988 are not yet known, the annual average number of jobs in Nebraska is estimated to have risen to 669,250 in 1988, a gain of roughly 10,000 jobs over 1987. This gain in jobs was the strongest since the 1984-1985 period (when the gain was even more impressive at roughly 15,000). That gain in turn was topped by the movement between 1983 and 1984, when close to 25,000 jobs were added. These historical episodes lend perspective to the most recent experiences. But a gain of 10,000 jobs in one year is a strong showing for the Nebraska economy and is one more indication that 1988 was a year of prosperity. Both manufacturing categories, durables and nondurables, enjoyed particularly impressive gains of about 2,700 and 1,750 jobs, respectively. Thus, the manufacturing surge noted in the section on gross product is also evident in the job figures. Increased labor demands that typically accompany a thriving economy helped to create the job gains. Also contributing were the pieces of tax incentive legislation (LB775, etc.) that are keyed to job creation. Recent reports indicate that a significant number of jobs pledged by qualifying firms have materialized. The fact that a significant portion of the LB775 applications involves projects in the manufacturing industries is consistent with the growth in the job counts for manufacturing during 1988.

The 1989 projection of the annual average number of jobs is 677,803. This figure represents a gain of about 8,550 jobs over the expected 1988 level. Thus, the pace of job creation will slow in 1989, but a growth rate of 1.3 percent is still above the average

Table 2
Jobs and Employment in Nebraska
(annual averages)

	1985	1986	1987	1988*	1989	% Change 1988-1989	Average Annual % Change 1985-1988
By Place of Work							
(count of jobs)							
Mining	1,872	1,723	1,665	1,665	1,665	0.0%	-3.8%
Construction	26,148	24,598	23,877	23,844	23,227	-2.6	-3.0
Durables Manufacturing	44,042	41,314	43,089	45,772	46,997	2.7	1.4
Nondurables Manufacturing	44,369	44,612	44,901	46,655	48,059	3.0	1.7
TCU	43,854	42,669	42,828	43,821	44,671	1.9	0.0
Wholesale Trade	47,578	46,818	46,922	48,086	48,854	1.6	0.4
Retail Trade	121,380	122,240	123,246	123,259	124,155	0.7	0.5
FIRE	45,372	46,828	47,794	48,157	49,623	3.0	2.0
Services	142,152	146,715	149,468	150,039	151,768	1.2	1.8
Federal Government-Civilian	16,951	17,572	17,791	17,552	17,782	1.3	1.2
State and Local Government	116,841	117,311	117,472	120,400	121,002	0.5	1.0
Total Nonfarm Wage & Salary	650,558	652,399	659,223	669,250	677,803	1.3	1.0
By Place of Residence							
(count of persons)							
Labor Force	804,000	813,000	811,000	808,983	818,298	1.2	0.2
Unemployment	44,000	41,000	40,000	30,296	33,045	9.1	-11.2
Unemployment Rate	5.5	5.0	4.9	3.7	4.1		
Employment	760,000	772,000	771,000	778,687	785,254	0.8	0.8
Farm	75,218	73,122	70,946	74,740	71,017	-5.0	-0.1
Nonfarm Wage & Salary	610,443	619,477	620,244	623,682	633,460	1.6	0.7
All Other Nonfarm	74,339	79,400	79,809	80,265	80,777	0.6	2.6

*Figures for 1988 are estimates made in advance of official releases.
Sources: Nebraska Department of Labor. Projections from the Nebraska econometric model.

annual growth rate of 1.0 percent of the 1985-1988 span. Among the individual industries, nondurables manufacturing and the finance, insurance, and real estate sectors will lead with 3.0 percent gains in jobs. Close behind in terms of job gains is durables manufacturing with an expected advance of 2.7 percent. Thus, the manufacturing industries will continue to be major contributors to job growth in Nebraska. That contribution is certainly a turnaround from the experiences in the early part of the decade when the number of manufacturing jobs suffered serious declines from the peak levels of 1979. The nondurables jobs projection of slightly over 48,000 for 1989 exceeds the 1979 peak, but the durables category of manufacturing has further to go to surpass its previous high.

Other industries with annual percentage gains in jobs for 1989 above that of the state total include wholesale trade and TCU. Notably missing from the higher growth group is services, the employment conversation piece of the 1980s. Job growth in services slowed markedly in 1988. Resurgence is anticipated for 1989, but not enough to generate growth on the same scale witnessed in the earlier years of the decade. Construction, retail trade, and state and local government will post percentage gains in jobs below that of the state total, with the construction job count continuing to decline. This pattern has been in place since 1980, with a temporary interruption in the mid-1980s.

On the place of residence basis (bottom portion of Table 2), employment showed a strong gain 1987-1988 with the addition of almost 7,700 persons holding jobs. The labor force declined slightly in 1988, leaving the unemployment rate just below 4.0 percent for the year. A large portion of the employment gain came in the farm sector, where roughly 3,800 more persons were working on an annual average basis than in 1987. That increase represents a strong, but temporary, departure from the long-term trend of employment declines in the farm sector. The employment gain in the nonfarm wage and salary category for 1988 was roughly 3,400 persons, a gain comparable to that achieved by the farm sector. This 3,400 job gain provides a perfect example of the need to interpret counts of jobs separately from counts of individuals. The earlier discussion about jobs noted that approximately 10,000 nonfarm wage and salary jobs had been added between 1987 and 1988. Yet only 3,400 persons gained employment in that labor category. More multiple job holding (moonlighting) and/or more nonresident job holders appears to have occurred in 1988.

The labor force should resume growth in 1989 and attain an annual average of around 818,300 persons. Total employment will advance .8 percent or about 6,500 persons over the 1988 level and be around 785,254 for the annual average. Thus, the employment growth for 1989 falls short of that in 1988, but still should be considered strong by historical standards. Farm employment is expected to decline in 1989 as a return to the longer-term trend begins. This leaves nonfarm wage and salary employment as the category to enjoy the strongest growth. The unemployment rate

is projected to rise in 1989 to a 4.1 percent level, mainly because of the anticipated strong advance in the labor force figures. Sources of error for these employment projections center around the behavior of Nebraska's population and the labor force participation rate in 1989. The population projection being used for 1989 is 1.614 million and may be too bullish. Shortfalls in the actual population from the 1989 projection will result in lower employment gains unless the participation rate increases substantially to take up the slack. This is unlikely. Gradual increases in the participation rate, rather than abrupt jumps, are anticipated over the near term. On balance, 1989 looks like another good, but not spectacular, year for employment and jobs.

Income

Total personal income (TPI) is another broad measure of economic health and performance of the state economy. As outlined in Table 3, the positive components of TPI are wages and salaries; other labor income; proprietors' income; dividends, interest, and rent; and transfer payments. A deduction of contributions for social insurance is made, and finally a residence adjustment is made. Figures in Table 3 show that TPI averaged a 5.4 percent annual increase over the 1985-1988 period, with the 1987-1988 increase estimated at 6.8 percent. This most recent rise in TPI is further evidence that the Nebraska economy enjoyed a good year in 1988. Nonfarm income rose an estimated 6.9 percent in 1988 while farm income is expected to show a 5.0 percent gain in 1988 after the official figures arrive next spring.

Anticipating farm income is risky business; $2.223 billion in 1988 is probably at the high end of the range of possibilities. Official figures through the second quarter of 1988 show that farm income was on a pace that would be sufficient to generate the expected annual figure for 1988. Higher grain prices enjoyed during the year will be offset to some extent by declines in deficiency payment receipts and production declines in some grains due to the drought. At last report, however, 1988 corn production was only marginally below the 1987 level. Much of the final 1988 farm income story will depend upon inventory revaluations applied to 1987 grain that was under loan and marketed in 1988. Another factor is the December 1, 1988 beginning of the sign-up period for the 1989 farm program. Applications that were filed and processed by the end of December may have received some advance deficiency payments that will be counted as 1988 income. Although those payments will not match the levels of previous years, they will provide a small boost to the fourth quarter income figures.

Nebraska's TPI should barely top the $26 billion mark for 1989, providing a growth rate of 6.8 percent, identical to that estimated for 1988. The composition of growth will tilt in favor of the nonfarm category of income, with a rise of 7.0 percent versus a rise of 4.0 percent in farm income. The farm income growth rate projection has several downside risks. It assumes that the higher commodity prices seen since mid-1988 will moderate somewhat, but not fall drastically. Lower percentage set-asides on farm program acres for 1989 crops, however, will jeopardize prices. Target price reductions for 1989 are in place, so deficiency payments will be reduced correspondingly. Finally, starting the sign-up period for the 1989 farm program December 1 will transfer a small amount of income from 1989 to 1988.

The projection of $26 billion for TPI in 1989 reflects the expectation for continued strength in the Nebraska economy during the new year. With inflation expected in the 5.0 percent range, the 1989 income figure implies a gain of just less than 2.0 percent in real terms. The growth rate of TPI in Nebraska falls short of the anticipated growth rate of 2.5 percent in real terms for the TPI of the U.S.

Retail Sales

Nebraska's net taxable retail sales performance was one of the biggest success stories in the economy during 1988. Although superlatives are usually in short supply to describe economic activity, the growth of retail sales 1987-1988 was

Table 3
Income in Nebraska
(millions of current dollars)

	1985	1986	1987	1988*	1989	% Change 1988-1989	Average Annual % Change 1985-1988
Total Personal Income (TPI)	20,829	21,683	22,845	24,390	26,038	6.8%	5.4%
Nonfarm Personal Income	19,127	19,744	20,728	22,167	23,726	7.0	5.1
Farm Personal Income	1,702	1,939	2,117	2,223	2,312	4.0	9.4
Components of TPI							
Earnings	15,293	16,035	16,939	17,939	18,971	5.8	5.5
Wages and Salaries	11,148	11,484	12,056	12,775	13,531	5.9	4.7
Other Labor Income	990	1,003	1,050	11,129	1,211	7.2	4.5
Proprietors' Income	3,155	3,548	3,833	4,034	4,228	4.8	8.6
Less: Social Insurance Contribution	962	1,020	1,074	1,149	1,210	5.3	6.1
Plus: Residence Adjustment	-292	-278	-286	-289	-292	1.0	-0.3
Plus: Dividends, Interest, Rent	3,956	3,951	4,142	4,514	4,950	9.7	4.6
Plus: Transfer Payments	2,834	2,995	3,124	3,375	3,618	7.2	6.0

*Figures for 1988 are estimates made in advance of official releases.
Sources: Bureau of Economic Analysis: August 1988 release of state personal income. Projections from the Nebraska econometric model.

Table 4
Net Taxable Retail Sales in Nebraska
(billions of current dollars)

Category	1985	1986	1987	1988*	1989	% Change 1988-1989	Average Annual %e Change 1985-1988
Motor Vehicle Sales	1.067	1.246	1.191	1.411	1.482	5.0%	10.3%
Nonvchicle Sales	8.047	8.555	8.852	9.747	10.268	5.3	6.6
Total Sales	9.114	9.801	10.043	11.158	11.750	5.3	7.0

*Figures for 1988 are estimates made in advance of official releases.
Sources: Nebraska Department of Revenue. Projections from the Nebraska econometric model.

phenomenal, particularly in the motor vehicles category. Through September (the latest figures available), motor vehicles sales had reached $1,079 million, compared to a volume of $899 million during the corresponding January through September period of 1987. This is an increase of 20.0 percent. Nonmotor vehicle retail sales also posted substantial gains. Through September, nonmotor vehicle sales in 1988 had grown to $7.030 billion. In 1987, $6.379 billion in nonmotor vehicle sales were recorded over the January to September period. Thus, the pace of 1988 was 10.2 percent ahead of that of 1987. Overall growth rate in total sales was 11.4 percent between the respective January to September periods of 1987 and 1988.

Motor vehicle sales are expected to finish 1988 at $1.411 billion, resulting in an annual increase of 18.6 percent. The hectic pace of these sales is expected to slow in the final months of 1988. The pattern of nonmotor vehicle sales in the waning months of 1988 is expected to parallel that of the motor vehicle component, with a 1988 total of $9.747 billion. This figure represents a 10.1 percent gain over the 1987 level of nonmotor vehicle sales. Again, a slowdown of the high growth rate from the corresponding months of 1987 is expected to occur in the final quarter of 1988.

Before concluding that Nebraska's sales experiences of 1988 are setting the stage for continued high growth rates, a review of the rather lackluster sales performance of 1987 is in order. Growth rates always look high when the base year values are low, which is precisely the situation with motor vehicle sales and, to a lesser extent, nonmotor vehicle sales. Table 4 contains figures pertinent to this point. Motor vehicle sales in 1987 were $1.191 billion compared to $1.246 billion in 1986, a decline of 4.4 percent. The 1986 figure was inflated artificially by tax law changes affecting the timing of purchases, particularly those of motor vehicles. The 1988 sales advances look impressive because of what happened in 1986. Taking a slightly longer perspective and comparing the 1986 and 1988 figures shows an annual compounded growth rate of 6.5 percent. A similar story appears in nonmotor vehicle sales, although not to the same degree, because there was a positive gain in these sales between 1986 and 1987. Using 1986-1988 for the comparison period shows an annual compounded growth rate of 6.7 percent, a rate substantially less than the 10.1 percent growth rate between 1987 and 1988.

These comments on the recent behavior of retail sales provide the needed perspective in which to view the sales projections for 1989. As shown in Table 4, the annual growth rates of motor vehicle sales and nonmotor vehicle sales are expected to moderate during 1989, the rate of the former being 4.9 percent while that of the latter is 5.3 percent. Total sales will post a 5.2 percent annual growth rate in 1989. These growth rates look paltry when compared to the 1987-1988 rates, but they are not out of line with the growth rates over the past few years. The one exception where growth does look sluggish is in the motor vehicle category. Increases in interest rates on short- and medium-term debt as 1989 unfolds is a moderating factor on spending, particularly for the motor vehicle category. Also, the personal saving rate is expected to move upward slightly during 1989. Rates of consumption growth will moderate in response.

Summary

It is likely that the projections presented above will be considered optimistic by most observers of the Nebraska economy. Slower growth in 1989 is the dominant theme sounded by prognosticators of the national economy, but many expect the first quarter of the year (and possibly the second quarter) to be strong. The Nebraska economy should follow the same pattern. The second half of 1989 may find the growth rate of the nonfarm portion of the state economy slowing due to national influences. The projections show that economic performance measured over the full year will not fall that much from 1988. The optimism demonstrated by the projections could be dashed quickly if farm income falters. Nebraska has enjoyed a streak of successively higher farm incomes in recent years—this has transmitted benefits to the nonfarm portion of the economy. The transmission effect also will work in the negative direction if farm income declines.

1987 Ag Census Report Due Soon

How many grain farms operated in Nebraska during 1987, and how much did they produce? What is the number of farms in your county? How big are farms on average? The *1987 Census of Agriculture Advance Reports* offer answers to these questions and many more.

The Census Bureau currently is releasing the *1987 Census of Agriculture Advance Reports* for all states on a flow basis. The exact release time for the Nebraska report is unknown; however, it can be expected around March or April. Check future issues of Business in Nebraska for further information.

David D. DeFruiter

Review and Outlook of the National Economy

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Summary of National Projections

*First quarter real Gross National Product figures will boom. Once the nation rebounds from last year's drought, low growth rates will ensue.
*Real GNP will expand 2.5 to 3.0 percent.
*One to two percentage points likely will be added to inflation rates and interest rates.
*Auto sales and housing starts will decrease moderately.
*The Federal Reserve will be a major force in the 1989 economy. The Fed can affect continued expansion, especially if inflation accelerates.
*Supply shocks or bad policy could produce slower growth than projected.

The lead article of this issue focuses on Nebraska; this section will examine the national economy for 1988 and offer an outlook for the year ahead. Let's start with a review of 1988.

Review of 1988

The strength of the economy fooled almost everyone. When forecasts were made for 1988, slow growth was viewed as the optimistic forecast. It now is estimated that when the fourth quarter results are reported, 1988 real Gross National Product (GNP) will advance 3.9% over 1987.

The economy would have been stronger were it not for the drought. Using estimates from the Bureau of Economic Analysis (BEA), the drought will take approximately .75 percent off 1988's real GNP growth. Figures for the fourth quarter GNP are not yet available. The BEA recently indicated that $12.3 billion was their latest estimate of the drought effect for 1988. The BEA projects a drop in GNP of approximately 1.5 percent at seasonally adjusted rates. My estimate is that the fourth quarter growth in GNP will be about 2.0 percent. Future drought effect estimates may be reduced as GNP figures are revised.

Let's now turn to an analysis of the major sectors of the economy in 1988. Consumption expenditures have been relatively stable. After a weak fourth quarter 1987, real personal consumption expenditures advanced 4.5, 3.0, and 3.9 percent at annual rates for the first, second, and third quarters in 1988. Consumption of services has been fairly stable. Following a weak fourth quarter in 1987, durable goods boomed in the first quarter of this year, remained high in the second quarter, and declined slightly in the third quarter. Nondurable goods had the opposite pattern, showing an increase of 5.0 percent at annual rates in the third quarter.

Auto and light truck sales were well ahead of expectations in 1988. After a weak fourth quarter in 1987, auto sales hit their stride in the spring and summer. For the year as a whole, 10.5 million autos and a record 4.9 million light trucks were sold, totalling 15.5 million for the year. That was the third best year on record, well ahead of the 14.9 million units sold in 1987. GM and Chrysler recently made some adjustments for slow moving models. In particular, GM recently extended a vacation period for two of their plants, while Chrysler extended a vacation period for one plant and permanently closed the old American Motors plant in Wisconsin. The remainder of the domestic vehicle models seem to be moving well, with shortages for some products occurring in 1988.

Christmas 1988 sales were strong, but not spectacular. Sales were helped by two extra shopping days between Thanksgiving and Christmas. Christmas sales advanced slightly from a year ago after adjusting for inflation. This is a positive result in view of the dismal forecasts for Christmas sales that prevailed in October.

Construction showed a surprisingly good year. There were some surprising strengths in residential construction late in 1988. Housing starts should total just under 1.5 million units for the year. Public construction was strong, showing an increase of 4.0 percent at annual rates from October to November.

Capital goods did well in 1988. The average annual increase for the first three quarters of 1988 for real investment in durable equipment was 15.1 percent. That torrid growth rate cannot be maintained. Recent data indicate that orders are solid and that backlogs promise continued production and shipments into 1989. Some of these capital goods are for the export market. Other capital goods are used to relieve high domestic capacity utilization rates. These high capacity utilization rates imply that more investment is to come in 1989, especially in the metals and paper areas.

Government expenditures have been stable, but undoubtedly will come under fire in 1989 as a new Congress and a new president seek to establish priorities and position.

Industrial production in 1988 was a surprise. The index of industrial production for 1988 will show an increase of about 5.5 percent above 1987. There is some indication that the strength of industrial production was led by exports. Primary metals, alumi-

Table I
National Indicators

	Annual		Quarterly (SAAR)		
	1987	1988 estimated	1988I	1988II	1988III
Real GNP (% change)	3.4	3.9	3.4	3.0	2.5
Real Consumption (% change)	2.7	2.8	4.5	3.0	3.9
Housing Starts (millions)	1.6	1.5	1.5	1.5	1.5
Auto Sales (millions)	10.3	10.5	10.8	10.6	10.6
Interest Rate (90 day T-Bill)	5.8	6.6	5.8	6.2	7.0
Unemployment Rate (%)	6.2	5.5	5.7	5.4	5.5
Industrial Production Index (1977=100)	129.8	137.2	134.5	136.0	138.4
2 (% change)	6.5	5.1	6.8	7.7	3.7

num, copper, and paper are all near maximum output levels, as is production of selected car models. Consequently, I cannot be optimistic about further expansion in 1989 in the industrial area. Growth rates are likely to slow.

Inflation can best be described as creeping upward. For the year as a whole, consumer prices will advance a little over 4.0 percent, and producer prices will gain about 2.5 percent. Food products showed some ups and downs as a result of the drought. Food prices should stabilize. An exception is beef, where a surge in prices over the next year may occur. Metals prices have been reasonably stable despite high capacity utilization rates. The availability of foreign supplies has been a factor in these markets. The price of medical services continues to climb.

Monetary policy has been troubling in 1988. The growth of M2, the most commonly used measure of the money supply, was 10.0 percent in April, but dwindled thereafter to 1.0 to 2.0 percent. These changes in the money stock have profound effects on the economy. Typically, changes in monetary policy are a reaction to the Fed's analysis of what will happen to inflation. The Fed seems to have a target for real economic growth between 2.0 to 2.5 percent. Inflation, however, has been moderate, and the economy has been expanding 3.0 to 4.0 percent. This raises serious question about the Fed's policies.

In agriculture, there were large subsidy payments in 1988. Nebraska has benefited from these payments. Some of the payments were drought-related and were shifted from other programs.

Outlook for 1989

What is the outlook for 1989? It can be divided into three parts: what is known that will happen (to the extent that any event can be known to happen); what is reasonable speculation about the future; and what is pure guess work.

There are two items known to occur in 1989. First, the consumption of services will continue its slow and steady pace. Second, 1989 will start with a bang in GNP accounts. The rebound from the drought should add a healthy gain to first quarter figures. The first quarter growth rate for 1989 real GNP easily could fall in the 4.0 to 5.0 percent range, even as high as 6.0 percent. Given that start, the yearly average could be respectable under even the most modest assumption of growth in real GNP for the balance of 1989.

What likely will occur in 1989? Inflation will continue its moderate creep. The experience of the 1970s reminds us that momentum can play a role in inflation. The Federal Reserve could move to offset that momentum by restrictive monetary policy as it did in 1981 and 1982. With inflation in the 4.0 to 5.0 percent range at the end of 1988 (depending on what measure is used), it is hard to find a reason for the Fed to tighten monetary policy at this time.

Another source of price disruption is OPEC. OPEC members agreed to a new overall quota of 18.5 million barrels per day. Evidence from the first few days of January is that OPEC members are complying. With a large build-up of oil stocks prior to the January 1 agreement date, however, there is currently little upward pressure on crude prices. Given the difficulties OPEC has had in policing its membership, there is small likelihood that the agreement will hold. Therefore, an oil-based cost push scenario is unlikely.

Nonresidential capital expenditures are likely to expand in 1989. These capital expenditures are slow to reverse, typically not reversing until after a recession has started. According to a recent Department of Commerce survey, plans for new plant and equipment in 1989 call for an increase of 6.0 percent in spending. With near capacity utilization, it is likely that investment will occur. The big spenders will be paper and nonferrous metals industries who now are planning increases of 28.3 and 13.1 percent. Automakers will expand 7.8 percent.

Housing activity will turn down in 1989, with starts totalling about 1.4 million units. The outlook for housing depends on interest rates. The demographics for housing purchases are weakening somewhat because baby boomers have been in the prime home purchasing age bracket for several years. Nevertheless, with divorce rates continuing at fairly high levels, more and smaller households will be formed, not fewer households.

Purchases of automobiles and light trucks probably will decline. After two good years of auto purchases, an expansion in this area is unlikely

With industrial production reaching new peaks and with some industries at capacity, there is little room for large increases in industrial production. The capital expenditures needed to create new capacity are not happening rapidly enough in 1988 to allow much expansion in 1989. For the year as a whole, industrial production should expand 3.0 to 4.0 percent.

I see no radical changes in government spending or tax policy at this time. Many feel that tax increases are needed, but are willing to wait. I expect nothing to be done on the income tax nor on Social Security taxes in 1989. There is probably as much desire to increase government spending on the part of Congress as there is a desire to cut government spending on the part of the in-coming president. Gramm-Rudman targets likely will be met through a mixture of real change and trickery, such as the bookkeeping transfer of the Social Security surplus. The question remains whether we have the national maturity to pay for what we spend. The answer on the federal government level is no. Special interests will continue to win concessions. Deficits will remain a problem. I suspect that Gramm-Rudman targets will be rescheduled and made easier to meet.

Agriculture policies are likely to change over the long term. Nevertheless, the rate of adjustment will be small. With budget-cutting considerations, agricultural subsidies are a likely target. Any changes probably will come gradually. The response on the part of the administration and Congress to the drought in 1988 suggests that government will not abandon the farmer.

Under the heading of pure guesswork comes speculation of how the Federal Reserve will behave. The Federal Reserve may overreact to its perception of inflation and choke expansion. There is little information for evaluating the current Federal Reserve at this point. Under the Greenspan Fed, M2 acted like a roller coaster ... after the 1987 market crash, the Fed rapidly expanded the money supply, following that with a rapid reduction of growth. Reasonably stable monetary policy has not been set by the Fed for some time. Interest rates are likely to increase moderately in 1989, perhaps one to two percentage points by the end of the year.

The other area of pure guesswork is the trade deficit. I suspect that the trade deficit will continue to improve, but have no basis for this projection. Determining the future course of the trade deficit is difficult because of the nature of data sources. For example, stock market reactions to monthly changes in the trade deficit are based on trade data that have fundemental collection problems. My outlook for the trade deficit is a momentum forecast, with high probability of error. Growing problems in Europe over beef imports may dampen U.S. trade prospects.

Another area that is pure guesswork is farm income. In November, a panel speculated that farm income in 1989 would decrease 10.0 percent from 1988. This drop will result from a reduction of farm subsidies and an expansion of production costs. Projecting farm income requires a forecast of weather conditions, prices, production, and exports, which makes such projections extremely difficult and prone to error. The Russians indicate that they will increase their grain purchases in 1989. The combined effect of the American drought and Russian purchases in 1989 implies a reduction in huge U.S. commodity stocks. This reduction may be a remedy for low agricultural prices in the short term, but a large production response is not unlikely.

Thus, the long-term hopes for limiting agricultural stocks are low, and the probable outlook for agricultural prices is another drop. A free market solution to the agricultural problem would be to drive out inefficient producers, leaving only the large efficient producers. Over the long-term, this has been happening in the U.S. agricultural community.

Conclusions

What reasonable projections can be made from the discussion above? Let's start with a projection of monetary policy. I

Table II
Employment in Nebraska

	Revised Oct. 1988	Preliminary Nov. 1988	Nov. % Change vs. Year Ago
Place of Work			
Nonfarm	676,144	681,010	1.6
Manufacturing	94,099	93,803	3.5
Durables	46,310	46,137	4.8
Nondurables	47,789	47,666	2.3
Mining	1,639	1,622	-3.6
Construction	25,246	24,808	0.7
TCU*	44,810	45,655	4.0
Trade	172,438	173,717	0.6
Wholesale	48,253	48,157	1.7
Retail	124,185	125,560	0.2
FIRE**	48,293	48,837	2.0
Services	149,611	149,799	-0.3
Government	140,008	143,219	3.0
Place of Residence			
Civilian Labor Force	828,008	827,960	-0.1
Unemployment Rate	3.2%	3.6%	

*Transportation, Communication, and Utilities
**Finance, Insurance, and Real Estate

Source: Nebraska Department of Labor

Table III
Price Indices

	Nov. 1988	% Change vs. Year Ago	YTD % Change vs. Year Ago
Consumer Price Index - U* (1982-84 = 100)			
All Items	120.3	4.2	4.0
Commodities	113.5	3.6	3.5
Services	127.8	4.8	4.5
Producer Price Index (1982 = 100)			
Finished Goods	109.7	3.3	2.3
Intermediate Materials	109	5.3	5.4
Crude Materials	94	-0.6	2.4
Ag Prices Received (1977 = 100)			
Nebraska	150	16.3	11.8
Crops	131	45.6	37.1
Livestock	162	5.2	3.0
United States	142	7.6	8.3
Crops	133	10.8	17.5
Livestock	151	5.6	1.9

U* = All urban consumers
Source: U.S. Bureau of Labor Statistics

hope that the Federal Reserve will moderate expansion of the money supply and not create large changes in the money supply throughout 1989. Interest rates are likely to increase about one to two percentage points, which would parallel the expected increase in inflation.

Consumption should increase in 1989, with the consumption of services up and the consumption of nondurables up slightly. The consumption of durables will be stable or slow slightly in 1989.

In the investment area, residential construction likely will decline. Nonresidential construction will show a slight increase, with plant expansions increasing and commercial construction decreasing. Public construction expenditures will retrench somewhat from 1988 levels. Capital goods will have a good year, with some capacity problems restricting growth.

I expect a slight reduction in government expenditures. Industrial production should increase a small amount in 1989. Most of that increase will be a small addition to the high levels of output reached at the end of 1988.

To summarize the outlook, I agree with most forecasters. Overall real GNP levels will increase about 2.5 to 3.0 percent in 1989. The expected boom in first quarter GNP numbers makes it hard to see GNP declining for 1989 as a whole. That does not preclude some negative quarters or a tapering of growth throughout the year. High capacity utilization rates, however, imply that it will be hard to achieve substantial gains in GNP growth in 1989. It is conceivable that we will experience the pattern of the late 1970s and early 1980s where occasional single quarter declines were followed by several quarters of growth. If that happens, monetary and fiscal policies become critical. Overreactions to single quarter downturns can be destabilizing. For the most part, I remain optimistic. The conditions for a recession are not in place at this time. 1989 is likely to be a year of continued moderate growth. The pessimists will have to wait until 1990 or later for their long anticipated downturn.

Table IV
City Business Indicators
September 1988 Percent Change from Year Ago

The State and Its Trading Centers	Employment (1)	Building Activity (2)
NEBRASKA	3.9	12.9
Alliance	-0.8	149.6
Beatrice	-0.2	135.7
Bellevue	3.3	100.0
Blair	3.3	-53.1
Broken Bow	-1.5	27.2
Chadron	4.0	-83.6
Columbus	7.2	28.9
Fairbury	-1.6	1,785.3
Falls City	-1.8	173.4
Fremont	-0.2	13.0
Grand Island	0.0	-0.9
Hastings	-1.9	13.3
Holdrege	-1.2	71.1
Kearney	-0.1	109.6
Lexington	-1.8	26.0
Lincoln	1.6	-8.3
McCook	-1.9	49.9
Nebraska City	-1.1	-11.6
Norfolk	-0.4	-33.5
North Platte	-0.7	74.7
Omaha	3.3	13.2
Scottsbluff/Gering	-0.8	29.3
Seward	-2.0	-14.6
Sidney	-1.5	32.5
South Sioux City	5.3	295.3
York	-1.4	-65.2

(1)As a proxy for city employment, total employment (labor force basis) for the county in which a city is located is used.

(2)Building activity is the value of building permits issued as a spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Cost Index is used to adjust construction activity for price changes.

Sources: Nebraska Department of Labor and reports from private and public agencies.

Figure I
City Business Index
September 1988 Percent Change from Year Ago

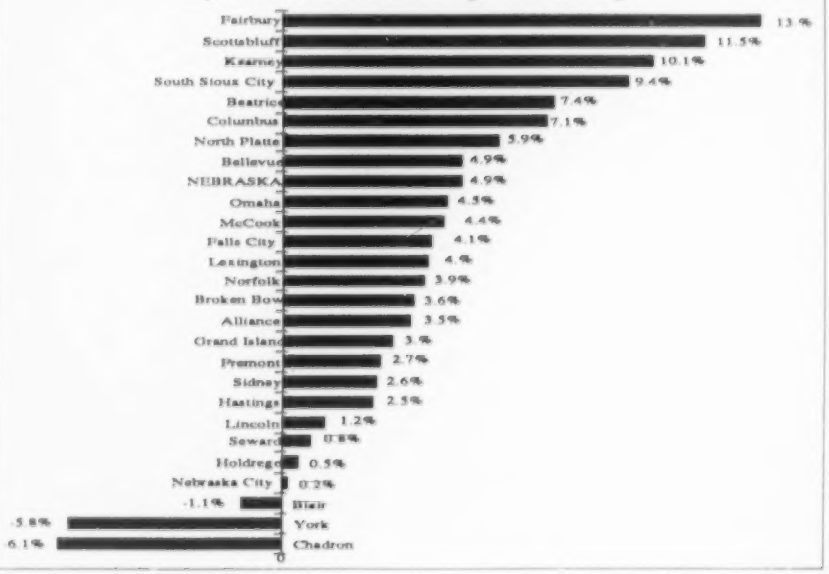
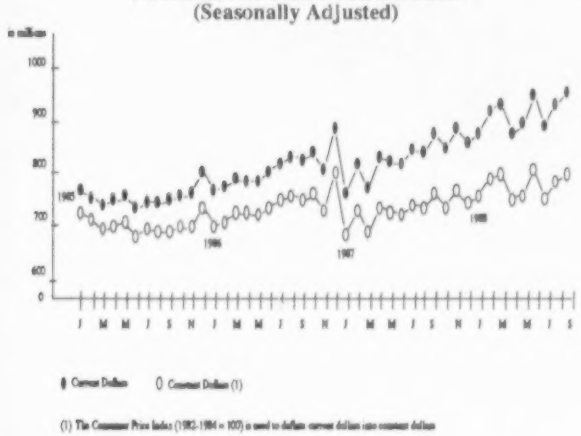


Table V
Net Taxable Retail Sales of Nebraska Regions and Cities

Region Number and City (1)	City Sales (2) Sept. 1988 (000s)	City Sales (2) % Change vs. Year Ago	Region Sales (2) Sept. 1988 (000s)	Region Sales (2) % Change vs. Year Ago	Region Sales (2) YTD % Change vs. Year Ago
NEBRASKA	$870,994	9.8	$993,332	9.4	11.4
1 Omaha	290,153	9.3	361,906	7.9	8.8
Bellevue	13,340	3.9	*	*	*
Blair	4,481	6.3	*	*	*
2 Lincoln	116,129	5.8	134,182	7.8	12.3
3 South Sioux City	4,352	4.7	6,394	2.1	18.3
4 Nebraska City	3,902	5.9	18,831	7.1	8.2
6 Fremont	15,776	8.9	29,392	6.1	12.1
West Point	2,737	4.9	*	*	*
7 Falls City	2,357	3.8	9,468	4.9	5.3
8 Seward	4,198	9.5	15,030	5.6	11.3
York	6,809	3.5	16,088	12.9	12.3
10 Columbus	14,284	10.1	26,750	11.0	14.3
11 Norfolk	19,097	17.9	34,703	14.3	17.0
Wayne	2,868	0.2	*	*	*
12 Grand Island	33,018	10.8	47,914	12.2	15.3
13 Hastings	14,622	10.1	23,965	6.4	10.0
14 Beatrice	7,639	11.6	17,167	4.5	8.7
Fairbury	2,608	2.8	*	*	*
15 Kearney	18,168	19.3	26,531	18.6	18.9
16 Lexington	5,749	12.3	15,905	10.1	18.5
17 Holdrege	4,274	0.2	7,935	-1.2	9.8
18 North Platte	15,080	12.1	19,306	11.5	15.5
19 Ogallala	5,582	8.6	11,171	13.5	13.2
20 McCook	7,588	11.3	11,269	9.6	15.6
21 Sidney	3,626	8.1	7,927	4.9	7.9
Kimball	1,697	-12.6	*	*	*
22 Scottsbluff/Gering	16,928	28.4	24,363	8.0	6.9
23 Alliance	4,913	2.6	13,614	7.4	11.0
Chadron	2,831	5.7	*	*	*
24 O'Neill	3,802	11.4	13,496	9.0	14.9
Valentine	2,359	4.1	*	*	*
25 Hartington	1,453	3.2	8,671	1.6	8.2
26 Broken Bow	3,201	11.0	12,024	16.2	19.8

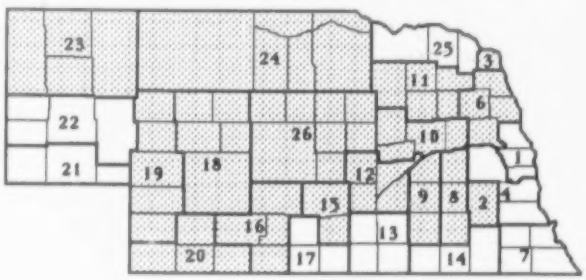
(1) See region map.
(2) Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales.
* Within an already designated region.
Compiled from data provided by the Nebraska Department of Revenue

Figure II
Nebraska Net Taxable Retail Sales
(Seasonally Adjusted)



(1) The Consumer Price Index (1982-84 = 100) is used to deflate current dollars into constant dollars

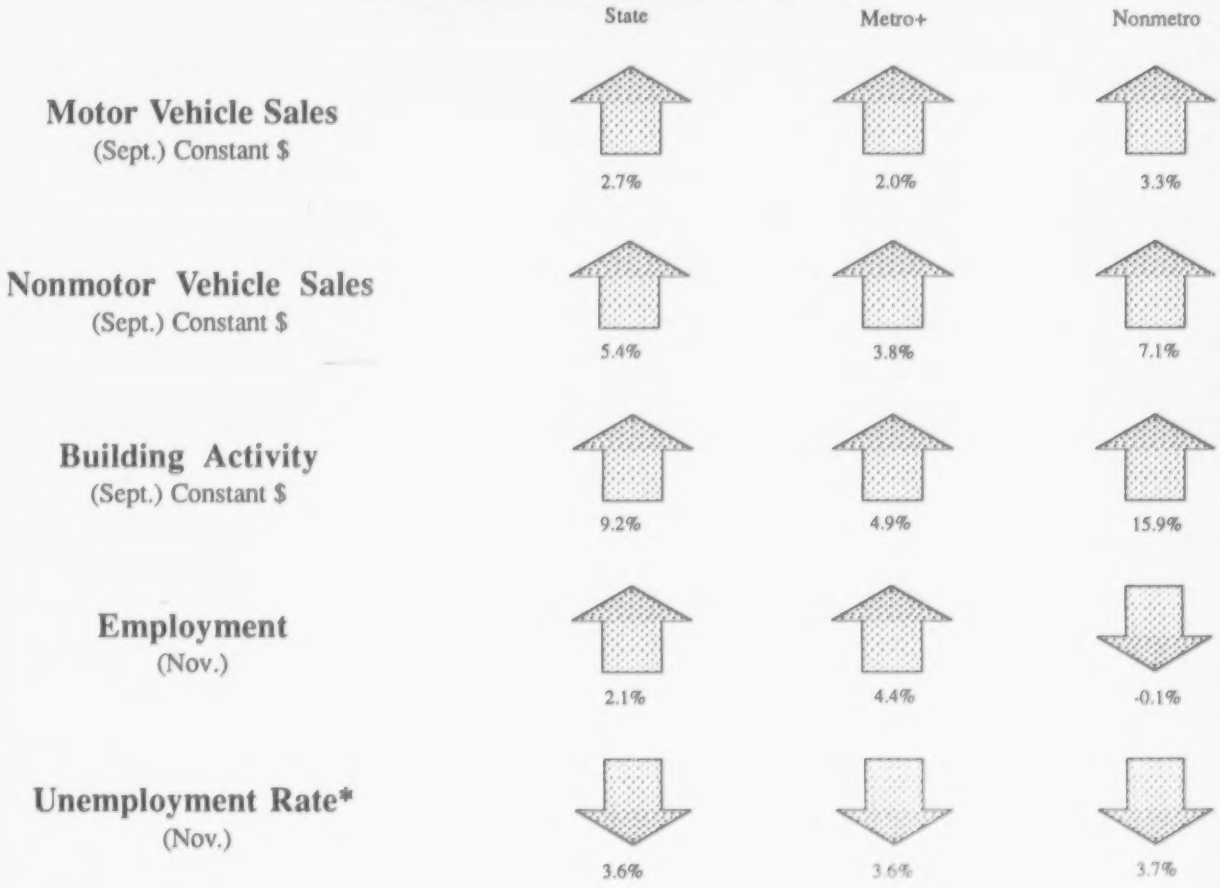
Figure III
Region Sales Pattern
YTD as Percent Change from Year Ago



Shaded areas are those with sales gains above the state average.

BB Scoreboard

Percent change from same month one year ago



+Omaha and Lincoln
*Unemployment is this month's rate, not a percent change from year ago

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